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(By email)

Dear Ynon,

Consultation on Electricity distribution structure of charges project: DNO's proposals for a common methodology at lower voltages

ScottishPower Energy Retail Ltd (SPERL) welcomes the opportunity to provide our views on the proposals and implementation of the Common Distribution Charging Methodology (CDCM).

This response is non-confidential and we are happy for this to be posted on your website.

SPERL has been an active participant in the industry discussions relating to CDCM and a member of Workstream 3. As such this response focuses on the implementation of the CDCM.

As mentioned in our previous responses in this area as a supplier we welcome any move towards commonality in both use of system (UoS) charging methodology and billing process. We recognise the benefits this ultimately have for both suppliers and customers. However we would question the statement in Appendix 3 of the consultation that "these savings will total multiple millions of pounds per year". Due to the nature of UoS billing, with a run off of up to 28 months, the full benefits and cost savings cannot be immediate on implementation. We do agree that savings can be made in reduced analytical and forecasting costs but do not believe this cost reduction will be as significant as suggested in the consultation document.

The main area we would like to highlight is the impact of Distribution Network Operators (DNO) derogations. We accept that a number of derogations have been submitted with varying end dates and as a supplier we fully understand the impact the CDCM will have, particularly in regards to systems. However, we expect to have either system updates in place or manual work-arounds ready for all areas of the CDCM by 1st April 2010. Any part of the CDCM, which does not go live on 1st April 2010, will have a detrimental impact on us, resulting in additional costs and resources being required. In order to limit this impact we would suggest that the end dates of any approved derogations are defined and applied consistently across the DNO community. For example if more than one DNO cannot go live with the changes to the reactive power calculations on 1st April

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2010 these changes should be held to one go live date which ties in with the business as usual UoS publication dates, i.e. October and April. Suppliers and customers are resourced appropriately at these times and as such could more easily accommodate implementation at these times. Further, we would appreciate Ofgem's final decision on both the CDCM and the derogations as soon as possible to aid our implementation plans.

In addition, we would also like to draw to Ofgem's attention the potential impact the derogations could have on Half Hourly (HH) customers. In particular companies with sites spread across the UK (Group Customers) who may be tendering for supply contracts in 2010. Customers and suppliers will have to contend with a mixture of old and new charging arrangements dependent on the site location. Although this is similar to the current arrangements it does detract from the fundamental principle of the CDCM. Further, as a supplier we are disappointed by the lack of information on the site-specific derogations requested. We have been unable to determine the issues this may or may not cause us. A potential issue to highlight is the fact that if these customers are not charged under CDCM it would be very difficult for suppliers to provide a supply quote which may result in these customers having a limited choice of new suppliers at their contract end date.

Throughout the consultation document Ofgem has highlighted a number of areas, which although being implemented in April 2010, will require further review before the full benefits are realised. Although we would have preferred all issues to be fully scoped out prior to implementation we do welcome the fact that these changes will be developed under the DCUSA governance, allowing suppliers to contribute fully.

We have conducted a high-level impact assessment of the HH red, amber & green cost signal and we believe customers will not receive the strong cost signal DNOs were expecting. The way a customer receives the specific UoS charges for their site is determined by their supplier contract. In many cases, customers opt for a rolled up contract and as such do not receive a break down of their UoS charges. In other cases, customers do receive a breakdown of their UoS charges but this can be on a weekly, monthly or quarterly basis. Customers do not request a daily breakdown and as such would not receive the full impact of the cost signal DNOs intended. Ofgem has recognised the importance of strong communication with customers regarding these changes of which we fully support. We would therefore suggest that since customers will receive an aggregate of the charges a UK wide communication be issued to HH customers detailing the time periods, why they are required and what they can do to mitigate against any increase in costs. This would help to reduce individual customer calls to both suppliers and distributors. We would also recommend that going forward this information is published centrally, for example on the ENA website.

If I hope you find these comments useful. If you require further information on anything within this response, please do not hesitate to contact me on the number above.

Yours sincerely,

Lorna Gibb
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